

## **FACT SHEET**

### **EX-IM BANK'S APPROACH TO PROJECT FINANCE**

Ex-Im Bank established the limited recourse project finance or “project finance” program as developing nations turned away from sovereign-guaranteed borrowing for large infrastructure projects. The program helps U.S. exporters compete in the development of private infrastructure and in the extraction of natural resources.

#### **PROGRAM DESCRIPTION**

The term “project finance” refers to the financing of projects that are dependent on project cash flows for repayment, as defined by the contractual relationships within each project. By their very nature, these types of projects rely on a large number of integrated contractual arrangements for successful completion and operation. The contractual relationships must be balanced with risks distributed to those parties best able to undertake them, and should reflect a fair allocation of risk and reward. All project contracts must fit together seamlessly to allocate risks in a manner which ensures the financial viability and success of the project.

Appropriate project finance candidates include greenfield projects and significant facility or production expansions. These projects do not rely on the typical export finance security package, which provide lenders recourse to a foreign government, financial institution or an established corporation. While Ex-Im Bank’s analytical approach for project finance is different from the traditional export finance approach, many of Ex-Im Bank’s requirements remain the same.

Ex-Im Bank’s project finance program has several financing options which project sponsors can utilize to develop an appropriate financing plan. During construction and operations, political only and comprehensive guarantees are available.

Ex-Im Bank has no dollar limits based on project size, sector or country. While there is no minimum transaction size, the applicant should carefully consider the costs associated with a limited recourse project financing approach. Generally, Ex-Im Bank utilizes financial, legal, and technical advisors for project finance transactions. However, for small project finance transactions, Ex-Im Bank may consider, on a case-by-case basis, not utilizing financial advisors, and relying instead upon internal due diligence as well as the due diligence of an arranging bank (or other major project lender).

#### **FLEXIBLE COVERAGE**

Where appropriate, Ex-Im Bank offers the maximum support allowed under the rules of the OECD Arrangement, including:

- Financing of interest accrued during construction related to the Ex-Im Bank financing.
- Allowance of up to 15 percent eligible foreign content in the U.S. components.
- Financing of host country local costs of up to 15 percent of the U.S. contract value as long as it is part of the scope of the U.S. contract.

On September 1, 1998, new rules were implemented for project finance transactions for Participants to the OECD Arrangement. The new rules allow Ex-Im Bank to provide more flexible loan repayment terms to match a project's revenue stream. Thus, project finance transactions can be structured with tailored repayment profiles, more flexible grace periods, and more flexibility on total repayment terms.

Ex-Im Bank implements the new flexibilities on a case-by-case basis for qualifying project finance transactions. Generally, extended grace periods or repayment terms must be justified by project cash flows or project considerations specific to certain industry sectors. For example, extended grace periods and back-ended repayment profiles may be justified for telecommunications projects but are likely not appropriate for power plants. The new flexibilities are in effect for a three-year trial period which began on September 1, 1998.

The new rules allow for the following:

- Full flexibility for setting a project's grace period, repayment profile, and maximum repayment term, subject to a maximum average life of 5.25 years; or
- The extension of a project's average life up to 7.25 years, subject to constraints for setting a maximum grace period of 2 years and a maximum repayment term of 14 years.

The new flexible terms are subject to the following additional constraints and/or considerations:

- If the project's repayment term extends beyond 12 years, 20 basis points are added to the CIRR Rate for direct loans.
- Interest cannot be capitalized post-completion.
- The flexible terms are only offered in High-Income OECD markets with additional constraints.
- The average life allowed under the new flexible terms will be taken into consideration when meeting the Minimum Premium Benchmark fees required as of April 1, 1999.

## **APPLICATION PROCESS**

**Business Development.** An introductory meeting with Project Finance's Business Development Officer is strongly recommended. The meeting should focus on Ex-Im Bank's policies and procedures and include a thorough explanation of the application process and the requirements

for Ex-Im Bank support.

**Project Finance Letter of Interest.** A Project Finance Letter of Interest (LI) is an indication of Ex-Im Bank's willingness to consider financing a given export transaction. To apply, interested parties must complete the Ex-Im Bank LI application and clearly indicate Limited Recourse Project Finance. The non-refundable processing fee for an LI is \$100. The applicant should attach an executive summary of the project which identifies the type of project, location of the project, parties to the transaction, status of the project, total project cost, U.S. cost and the anticipated project time frame. The Project Finance LI differs from Ex-Im Bank's traditional LI. The LI application is available on Ex-Im Bank's web page.

**Competitive Letter of Interest.** On a case-by-case basis, Ex-Im Bank is willing to consider providing evidence of support during the early stage of the project development by performing a more in-depth project analysis and issuing a Competitive Letter of Interest (CLI). Each CLI issued will provide an indicative exposure fee range and a list of preliminary issues identified by Ex-Im Bank. Applicants responding to an international invitation to bid for a project, or applicants pursuing projects in difficult markets are eligible to apply. The cost for a CLI analysis is \$1000. In addition to the information required for an LI, applicants should submit any other available information such as project agreements, proposed financing plan, risk mitigation proposals, etc. Please refer to the Competitive Letter of Interest Fact Sheet on the web page.

**Final Commitment Application Submission.** The Final Commitment application submitted to Ex-Im Bank must include: 1) the standard Ex-Im Bank Preliminary Commitment/Final Commitment Application Form, and 2) five copies of the materials listed below under "Project Finance Application."

**Preliminary Review.** The Project Finance's Business Development staff will review the material submitted within five to ten business days from the date that the application is received to determine if it includes the required information to proceed with an evaluation.

**Incomplete Applications.** If the application is determined to be incomplete, it will be returned to the applicant with an explanation of its deficiencies. If the application is not determined to be suitable for limited recourse project financing but could still be considered for another form of Ex-Im Bank financing, it will be forwarded to the appropriate division and the applicant will be notified.

**Choice of Financial Advisor.** For applications proceeding to a Phase I evaluation, a financial advisor will be selected by Ex-Im Bank. Determination of the specific financial advisor will depend on several factors including geographic and sector expertise and availability to meet project deadlines.

**Evaluation Fee.** Before the financial advisor begins his review (Phase I of evaluation), the applicant will be required to pay an evaluation fee and execute a contract with the financial advisor. In addition, the applicant will need to execute an indemnity agreement with the financial advisor. No evaluation by Ex-Im Bank and the financial advisor will commence without payment of the financial advisor evaluation fee, execution of the contract and the indemnity agreement. If Ex-Im Bank agrees to proceed with the project after completion of the Phase I evaluation, the applicant will be required to pay additional related fees for the Phase II due diligence. The application will be returned to the applicant if the arrangements for the financial advisor are not completed within thirty days.

**Other Fees.** For all projects, Ex-Im Bank will require, either in conjunction with other lenders or for its own use, the advice of independent outside legal counsel, independent engineers, and insurance advisors. In addition, there may be other fees associated with conducting proper due diligence. Payment for these and any other fees will be the responsibility of the project sponsors or the applicant.

**Preliminary Project Letter (Phase I).** Upon satisfactory completion of the evaluation process, the Structured Finance Division will issue a PPL within 45 days from the date evaluation begins by the financial advisor. The PPL will indicate if Ex-Im Bank is prepared to move forward on a financing offer and the corresponding general terms and conditions based upon the information available at the time of application.

**Evaluation Post-PPL (Phase II).** After issuance of the PPL, Ex-Im Bank will work with the applicant to proceed to a Final Commitment. Please note that Ex-Im Bank does not issue Preliminary Commitments for project finance transactions. Ex-Im Bank will continue to utilize the financial advisor for the Phase II of the due diligence process.

#### **MORE INFORMATION**

U.S. Toll Free Number:	(800) 565-EXIM
Worldwide Number:	(202) 565-3946
Project and Structured Finance	(202) 565-3690 Fax (202) 565-3695
TDD:	(202) 565-3377
Fax Retrieval:	(800) 565-EXIM, press 1, press 2
Email:	bdd@exim.gov
Internet:	<a href="http://www.exim.gov">http://www.exim.gov</a>

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**Attachment**

### **STRUCTURED FINANCE DIVISION**

#### **PROJECT CRITERIA AND APPLICATION** **INFORMATION REQUIREMENTS**

##### **I. GENERAL PROJECT**

- **The projects should have long-term contracts from creditworthy entities for the purchase of the project's output and the purchase of the project's major project inputs such as fuel, raw materials, and operations and maintenance. Such contracts should extend beyond the term of the requested Ex-Im Bank financing. In sectors such as telecommunications and petrochemicals if long-term contracts are not available, Ex-Im Bank will evaluate the transactions on a case-by-case basis, looking for economically compelling business rationale.**

- **The project should contain an appropriate allocation of risk to the parties best suited to manage those risks. Sensitivity analysis should result in a sufficient debt service coverage ratio to ensure uninterrupted debt servicing for the term of the debt.**
- **Total project cost should be comparable to projects of similar type and size for a particular market.**
- **Product unit pricing and costs should reflect market based pricing.**
- **Devaluation risk needs to be substantially mitigated through revenues denominated in hard currencies, revenue adjustment formulas based on changing currency relationships, or other structural mechanisms.**

#### Information Required

1. Summary of all aspects of the project, as contained in an independently prepared feasibility study and/or a detailed information memorandum, prepared by a qualified party. The study or memorandum should include the project description, location, legal status, ownership, and background and status of key elements of the project structure, such as agreements, licenses, local partner participation and financing.
2. Agreements for key elements of the project. Ex-Im Bank considers key agreements to include all contracts necessary for the project to be built and operate. This includes contracts relating to infrastructure as well as supply and off-take agreements. These agreements should be in substantially final form. Ex-Im Bank will not accept summaries or outlines of these agreements.
3. A breakdown of anticipated project costs through commissioning, including interest during construction and working capital requirements, by major cost category and country of origin. This information should also include a breakdown of any "soft costs" such as development costs, development fees, owner's contingencies and other similar items. A breakdown of the proposed coverage for interest during construction and the method of calculation should also be included.
4. A summary of the anticipated project financing plan and security package, including the proposed source, amount, currency and terms of the debt and equity investments; the sources of finance in the event of project cost overruns; and description of escrow accounts. Information on the terms, security requirements, and status of financing commitments of other lenders to the project, if applicable, should be provided. All other sources approached for financing (multinational development banks, other export credit agencies, commercial banks, capital markets and private investors) must be disclosed.
5. Projected annual financial statements covering the period from project development through final maturity of the proposed Ex-Im Bank financing, to include balance sheet, profit and loss, source and application of funds statements, and debt service ratios. Projections should include a sensitivity analysis for not only the expected scenario, but pessimistic and optimistic cases as well.

This information should also be provided on a 3-1/2" computer diskette with the project's financial model in Lotus 123 or Excel. The structure of the financial model should be in a format that is user friendly. Ex-Im Bank must be able to review and adjust the assumptions in the model.

6. Assumptions for the financial projections, including but not limited to the basis for sales volume and prices; operating and administrative costs; depreciation, amortization and tax rates; and local government policy on price regulation.
7. Market information to include ten years of historical price and volume data; present and projected capacity of industry; product demand forecast with assumptions; description of competition and projected market share of the project as compared to the shares of the competition; identity and location of customers; and marketing and distribution strategy.
8. A description of the principal risks and benefits of the project to the sponsors, lenders, and host government.
9. A description of the types of insurance coverage to be purchased for both the pre-and post-completion phases of the project.
10. Information on infrastructure required for the project to operate, specifically information pertaining to the timing, status and developmental plans must be provided.
11. A clear articulation of the need for Ex-Im Bank coverage.

## **II. PARTICIPANTS**

- **Project sponsors, offtake purchasers, contractors, operators, and suppliers must be able to demonstrate the technical, managerial and financial capabilities to perform their respective obligations within the project.**

### Information Required

1. Sponsors must provide in English a brief history and description of their operations, a description of their relevant experience in similar projects, and three years of audited financial statements.
2. If the sponsors are part of a joint venture or consortium, information should be provided for all the participants. A shareholders agreement should also be provided. All documents pertaining to this area (joint venture agreement, management and service agreements) should be in substantially final form.
3. Offtake purchasers and suppliers should provide in English a history and description of operations, at least three years of audited financial statements, and a description of how the project fits in their long-term strategic plan. If the project utilizes raw materials (oil, gas, coal, ethane, etc.) copies of contracts that have been reviewed by legal counsel for appropriateness and in adherence with local law should be provided.
4. Contractors and operators must provide resumes of experience with similar projects and recent historical financial information.

### III. TECHNICAL

- **Project technology must be proven and reliable, and licensing arrangements must be contractually secured for a period extending beyond the term of the Ex-Im Bank financing.**
- **A technical feasibility study or sufficient detailed engineering information needs to be provided to demonstrate technical feasibility of the project.**

#### Information Required

1. Technical description and a process flow diagram for each project facility.
2. Detailed estimate of operating costs.
3. Arrangement for supply of raw materials and utilities.
4. Draft turnkey construction contract and description of sources of possible cost increases and delays during construction, including detailed description of liquidated damage provisions and performance bond requirements.
5. Project implementation schedule, showing target dates for achieving essential project milestones.
6. A site-specific environmental assessment, highlighting concerns, requirements and solutions. These documents should demonstrate compliance with Ex-Im Bank's environmental guidelines. All applicants must submit a Preliminary Environmental Assessment report conducted by a third party expert prior to an application for final commitment.

### IV. HOST COUNTRY LEGAL/REGULATORY FRAMEWORK & GOVERNMENT ROLE

- **Host government commitment to proceeding with the project needs to be demonstrated.**
- **Legal and regulatory analysis needs to demonstrate that the country conditions and the project structure are sufficient to support long-term debt exposure for the project through enforceable contractual relationships.**
- **Ex-Im Bank's relationships with the host government will be addressed on a case-by-case basis. An Ex-Im Bank Project Incentive Agreement (PIA) with the host government may be required. The PIA addresses certain political risks and Ex-Im Bank's method of resolution of conflict with the host government pertaining to these issues. Only certain markets will require a PIA.**

#### Information Required

1. A description of the host government's role in the project, and progress made toward obtaining essential government commitments, including authorizations from appropriate government

entities to proceed with the project. Copies of all permits, licenses, concession agreements and approvals are required in addition to a description of all permits necessary to complete the project and their status. This information is critical for Ex-Im Bank application consideration.

2. A definition of the control, if any, that the government will have in the management and operation of the project, and status of any assurances that the government will not interfere in the project's operation. If the government is also a project sponsor, these issues will be of particular importance.
3. Evidence of the government's current and historical commitment and policies for availability and convertibility of foreign currency.
4. Status and strategy for obtaining government undertakings to support any government parties involved in the project, to the extent that such undertakings are needed to provide adequate credit support for such entities.